

Ternopil National Economic University,  
Ph.D., associate professor of International Economics Department

### **Russia's role in global financial stability imbalance**

The current crisis has exposed the increasingly limited capacity the West has to bring emerging powers in line with their positions. As the West tries to economically punish and politically ostracise Russia over its involvement in Ukraine, Moscow is forging a new economic and financial architecture with what is expected will be the economic powerhouses of the future [1]. The recent creation of a US\$100 billion BRICS development bank and a reserve currency fund worth another US\$100 billion, as an alternative to the Western dominated IMF and World Bank, are concrete examples of these countries' intentions and capabilities .

The New Development Bank was agreed to by BRICS leaders at the 5th BRICS summit held in Durban, South Africa on 27 March 2013 [2]. On 15 July 2014, the first day of the 6th BRICS summit held in Fortaleza, Brazil, the group of emerging economies signed the long-anticipated document to create the \$100 billion BRICS Development Bank and a reserve currency pool worth over another \$100 billion [3]. Both will counter the influence of Western-based lending institutions and the dollar. Documents on cooperation between BRICS export credit agencies and an agreement of cooperation on innovation were also signed [4]. Shanghai was selected as the headquarters after competition from New Delhi and Johannesburg. An African regional center will be set up in Johannesburg [5]. The first president will be from India, [6] the inaugural Chairman of the Board of directors will come from Brazil and the inaugural chairman of the Board of Governors will be Russian [3].

The bank's primary focus of lending will be infrastructure projects [7] with authorized lending of up to \$ 34 billion annually [7]. South Africa will be the African Headquarters of the Bank named the "New Development Bank Africa Regional Centre" [8]. The bank will have starting capital of \$ 50 billion, with capital increased to \$ 100 billion over time [8]. Brazil, Russia, India, China and South Africa will initially contribute \$ 10 billion each to bring the total to \$ 50 billion [8]. Each member cannot increase its share of capital without all other 4 members agreeing. This was a primary requirement of India [9]. The bank will allow new members to join but the BRICS capital share cannot fall below 55 % [6].

So, the New Development Bank (NDB), formerly referred to as the BRICS Development Bank, is multilateral development bank operated by the BRICS states (Brazil, Russia, India, China and South Africa) as an alternative to the existing US-dominated World Bank and International Monetary Fund [2]. The Bank is set up to foster greater financial and development cooperation among the five emerging markets. Together, the four original BRIC countries comprise in 2014 more than 3

billion people or 41.4 percent of the world's population, cover more than a quarter of the world's land area over three continents, and account for more than 25 percent of global GDP.

The prospective financial institution would entail more commitment on the five partners towards more synchronised and coordinated macroeconomic stance. Therefore, Russia should coherently stick to this framework and this is a challenge per se. Although Russian financial engine is oil and gas industry in the short-run, no one any other on-going systematic plan to boost up economic growth in Russia. Hence, a prospective development bank would be an additional challenge for Russia because a financial commitment would force Russia to both keep up with what the other "4-BICS" are exhibiting in terms of high growth rate potential and adhere to the strategic framework set by the development bank [10].

In Ukraine, though, it was Russia that breached the non-intervention principle. By invading and annexing Crimea, Moscow also violated the international norm of not claiming territory by force. Yet, the BRICS maintained their support for Russia. India and China – which face separatist movements in their own countries – in particular are turning a blind eye to Moscow's association with pro-Russian rebels in Ukraine. In the long run, the policy of isolating Russia will prove highly disruptive to the international system. Russia's fellow BRICS may have sufficient leverage to restrain Russia's aggressive anti-liberal nationalism, at the same time as opening new channels of negotiation with the Western powers [1]. This could be done in the context of the G20 where the BRICS group has made efforts to advance these emerging powers' agenda of reforms. The danger, however, is that Russia will remain uncompromising in its opposition to the West and will enjoy full support from the BRICS. And the potential for the two blocs going head to head could well lead to a reform of the international system.

#### *References*

1. *BRICS keep supporting Russia in bid to rebalance world power / <http://theconversation.com>. – 8 September 2014. – Digital resource. – Access: <http://theconversation.com/brics-keep-supporting-russia-in-bid-to-rebalance-world-power-31122>.*
2. *Powell A. BRICS Leaders Optimistic About New Development Bank / Voice of America. – Retrieved 27 March 2013. – Digital resource. – Access: <http://www.voanews.com/content/brics-summit-leaders-optimistic-about-new-development-bank/1629583.html>.*
3. *Lewis J. Brics Agree to Base Development Bank in Shanghai / The Wall Street Journal. – Retrieved 16 July 2014. – Digital resource. – Access: <http://online.wsj.com/articles/brics-agree-to-base-development-bank-in-shanghai-1405453660>.*

4. *BRICS establish \$100bn bank and currency reserves to cut out Western dominance / RT.com. – 15 July 2014. – Digital resource. – Access: <http://rt.com/business/173008-brics-bank-currency-pool>.*
5. *Cabinet Welcomes BRICS Development Bank / Yahoo News. – 24 July 2014. – Digital resource. – Access: <http://news.yahoo.com/cabinet-welcomes-brics-development-bank-115111670.html>.*
6. *BRICS Development Bank launched, first president to be from India / The times of India. – 16 Jul 2014. – Digital resource. – Access: <http://timesofindia.indiatimes.com/business/international-business/BRICS-Development-Bank-launched-first-president-to-be-from-India/articleshow/38440605.cms>.*
7. *New BRICS Bank a Building Block of Alternative World Order / The Huffington Post. – 18 July 2014. Retrieved 20 July 2014. – Digital resource. – Access: [http://www.huffingtonpost.com/parag-khanna/new-brics-bank\\_b\\_5600027.html](http://www.huffingtonpost.com/parag-khanna/new-brics-bank_b_5600027.html).*
8. *BRICS Bank ready for launch – Russian Finance Minister / Russia & India Report. – 10 July 2014. Retrieved 20 July 2014. – Digital resource. – Access: [http://in.rbth.com/economics/2014/07/10/brics\\_bank\\_ready\\_for\\_launch\\_-\\_russian\\_finance\\_minister\\_36599.html](http://in.rbth.com/economics/2014/07/10/brics_bank_ready_for_launch_-_russian_finance_minister_36599.html).*
9. *Victory for Modi, India as BRICS summit clears setting up of a new development bank / India Today. – 16 July 2014. Retrieved 20 July 2014. – Digital resource. – Access: <http://indiatoday.intoday.in/story/modi-victory-brics-summit-clears-a-new-development-bank/1/372582.html>.*
10. *Establishing BRICS Development Bank is a fascinating proposal / Valdai International Discussion Club. – 03 April 2012. – Digital resource. – Access: <http://valdaiclub.com/asia/40720.html>.*